

1                                   **ANTHONY CABOT**

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3                   CHAIRMAN JAMES:   Mr. Cabot.

4                   MR. CABOT:           Madam Chairman, members of the  
5 Commission, I want to thank you for the opportunity to be able to  
6 speak to this Commission about the growing Internet gambling  
7 phenomena. One of the disadvantages of following three other  
8 lawyers is much of what I had to say has already been covered.

9                   CHAIRMAN JAMES:   Pull it a little closer.

10                  MR. CABOT:       Much of what I had to say has been  
11 covered. But perhaps in a few simple areas I can give some more  
12 insights, or at least my opinions.

13                  The first thing that I want to stress to this  
14 Commission is I think this issue is the most important issue that  
15 this Commission will face. Let me explain why. We have a  
16 tendency I think to look at things from the here and now. Here  
17 and now, gambling on your computer is not that big of a deal.  
18 Here and now, more people will watch television than use their  
19 computer. Here and now, more people will visit casinos or do  
20 lotteries than will gamble online. But here and now is not going  
21 to be here and now for long. What we're seeing in this industry,  
22 and I'm not talking about the Internet gambling industry, I'm  
23 talking about the Internet industry, is a convergence of  
24 technologies. This is not about net heads. This is not about  
25 computer nerds sitting in their den, playing gambling games over  
26 the Internet.

27                  In five years, the technology that we know now as  
28 your home computer will be incorporated into your television.  
29 We're seeing it already. We see Web TV by Microsoft. We see

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1 Microsoft investing in cable companies. We see a fight over the  
2 standards for digital television between the computer industry  
3 and the TV industry. That's because five years from now, maybe  
4 ten years from now, the television that you have in your living  
5 room will have Internet access. Just as today we don't know, a  
6 lot of people don't know, their cars are controlled by computer  
7 chips, five years from now or ten years from now, you'll be  
8 sitting in your living room not knowing that your television is  
9 controlled by a computer chip and that you plugged it in the same  
10 way that you're plugging in your TV now but it has Internet  
11 access.

12           You don't know it's the Internet. All you know if you  
13 have this universal box in your living room that has these  
14 tremendous capabilities. You can shop on it. You can compare  
15 goods on it. You can access libraries on it. You can pull down  
16 recipes. You can do all sorts of amazing things with this new  
17 box that's sitting in your living room. But you can also gamble  
18 on it.

19           And it's much more than saying you have the ability  
20 to play a slot machine on your home computer. In ten years  
21 you'll have the ability to play an unregulated slot machine in  
22 your den, on your television, interactively. That is what we're  
23 talking about. So when people start talking about these  
24 fantastic numbers that Internet casino gambling can generate,  
25 whether it be five billion or ten billion or 60 billion, which is  
26 outrageous, we're talking about the five to ten billion in  
27 numbers, you generate them not by the person playing on their  
28 home computer. It's by the people who in five to ten years from  
29 now will be playing on their television sets.

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1           With all the promise that I think the Internet  
2 brings, for all of its capabilities, it's going to be major  
3 challenge, to people like you who help make policy and to people  
4 like the Assistant Attorneys General on the last panel who  
5 enforce policy. Well, it's not the first technology that has  
6 traversed international borders. It is something that has some  
7 unique characteristics. It's incredibly cheap, it's interactive,  
8 video and audio, and it provides the opportunity for people to  
9 exchange digital cash.

10           And we talk about the here and now. Here and now,  
11 we're talking about credit cards, like some of the other  
12 panelists had talked about. We're talking about funds transferred  
13 through Western Europe. Tomorrow that's not going to be the  
14 case. Five years from now, the way you're going to exchange cash  
15 over the Internet is through smart card technology, stored value  
16 mediums. So that anybody who has one of these little cards can  
17 swipe that card and they can exchange cash over the Internet,  
18 literally digital cash.

19           So it's not the here and now that's important. It's  
20 what's happening in five to ten years, and why this is an  
21 extremely important issue for this Commission. And the Internet  
22 is going to be simply nirvana for criminals. Imagine this  
23 scenario in the year 2005.

24           A person wants to buy drugs. They get their smart  
25 card, this little stored value medium and they buy their drugs  
26 with the smart card. The drug dealer gets the stored value,  
27 transfers it to an Internet casino operating off of a boat  
28 floating in international waters, who then transfers it to a  
29 European bank under the guises of winning. They convert it at

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1 the European bank into some type of bearer bonds which they use  
2 as securities to make a loan that goes back to the United States.  
3 They money flows back. They have the perfect money laundering  
4 scheme.

5 I want to emphasize, people say, look, it's better to  
6 regulate this industry than to prohibit it. Well, that may be  
7 the truth and it may not be. But one thing that I think has to  
8 be made perfectly clear here, and I think it was in reference to  
9 a question that Commissioner Bible raised, is that it's no easier  
10 to impose regulation on people as it is to impose prohibition.  
11 The best that you could possibly hope for when you impose  
12 regulation is that people will voluntarily comply with it. If a  
13 person says I'm not going to be subjected to regulation over the  
14 Internet, there's little more you could do than you could if you  
15 try to prohibit that person from dealing with it.

16 Let me get into another topic. I think it was in my  
17 written comments, so I really want to emphasize. What we're  
18 dealing with here in contrast with what Alan was talking about is  
19 not a national issue. This is an international issue. Because  
20 we have a situation today where national governments have almost  
21 as much frustrating of a time enforcing national policy on the  
22 Internet than states have in enforcing state policy. The only  
23 way that we can respect the sovereignty of states, of  
24 communities, of nations, to enforce their public policy with  
25 regard to Internet gambling or other issues, pornography, bank  
26 fraud, whatever the case may be, is through international  
27 cooperation.

28 It goes beyond, in reference to Frank's comment, it  
29 goes beyond protecting the welfare of the players. A lot of

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1 public policy in this area has little to do with protecting the  
2 patron and a lot to do with what a particular community or  
3 particular state feels about the morality or the social  
4 consequences of legalizing gambling. The only way that we can  
5 protect a state like Utah or Hawaii that says we're not going to  
6 have any gambling whatsoever in our state, it's a policy that  
7 should be respected, is to have international cooperation. The  
8 only way we can protect the policies of a state like Nevada, my  
9 home state, where we say we're going to have gambling, where  
10 we're going to regulate it stringently, to assure that it's fair  
11 and honest, is to have international cooperation, cooperation  
12 which assures that nations which license Internet casino  
13 operators will put into place those types of procedures that  
14 respect the sovereignty of other countries, of other states, to  
15 assure that states can continue to maintain their overall public  
16 policy in this area.

17           So in this light, in conclusion, we really need to  
18 start working today. You folks need to start working today  
19 towards beginning the dialogue on an international level, to  
20 start addressing the public policy issues raised by Internet  
21 gambling as a subset of a much larger issue and that is, public  
22 policy concerns with child pornography, with bank fraud, with  
23 respect to intellectual property, to come to some kind of an  
24 international consensus on how we're going to deal with these  
25 issues. Thank you.

26           CHAIRMAN JAMES: Thank you, Mr. Cabot.

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